

CABINET
15 DECEMBER 2009

Cabinet member: Councillor Fleur de Rhé-Philipe - Finance, Performance and Risk

INTERIM REPORT ON TREASURY MANAGEMENT STRATEGY 2009-10

Executive Summary

The Council has adopted a Treasury Management Strategy and an Annual Investment Strategy (AIS) for 2009-10.

In addition to an Annual Report, the policy requires this interim report reviewing the Treasury Management Strategy (TMS), which covers the period 1 April to 30 September 2009.

Proposal

The Cabinet is asked to note the contents of this report in line with the Treasury Management Strategy.

Reasons For Proposals

The report is a requirement of the Council's Treasury Management Strategy.

MARTIN DONOVAN
Chief Finance Officer

INTERIM REPORT ON TREASURY MANAGEMENT STRATEGY 2009-10

Background & Purpose of Report

1. The Council adopted a Treasury Management Strategy for 2009-10 at its meeting on 24 February 2009, incorporating Prudential Indicators (Prls) and an Annual Investment Strategy, in accordance with the Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
2. The Council agreed that in addition to an Annual Treasury Report reviewing the year as a whole, an interim report would be submitted to Cabinet reviewing the Treasury Management Strategy. This is an interim report covering the period from 1 April to 30 September 2009.

Main Considerations for the Cabinet

3. This report reviews management actions in relation to:
 - a) the Prls originally set for the year and the position at 30 September 2009;
 - b) other treasury management actions during the period; and
 - c) the agreed Annual Investment Strategy.
4. As there have been no major variations from the expected strategy in the period under review, members are not required to make any decisions as a result of this report.

Review of Prudential Indicators and Treasury Management Strategy for 2009-10

5. The following is a review of the position on prudential indicators for the six months to 30 September 2009.

Prl 1 – Capital Expenditure

6. The table below shows the revised figures for capital expenditure based on the current capital approved budget.

	2008-09 Actual Outturn	2009-10 Original Estimate	2009-10 Revised Estimate	2009-10 Actual To date 30/09/09
	£ million	£ million	£ million	£ million
Capital Expenditure	103.5	131.7	138.9	41.8

7. The actual outturn for 2008-09 includes the outturns of the former district councils and county council.
8. The revised estimate for 2009-10 is slightly higher than the original estimate due to roll forwards and miscellaneous budget adjustments since the previous estimate was formulated.
9. The Capital Programme is monitored closely throughout the year and progress on the programme is reported to the Cabinet. The position at the end of September 2009 was reported to Cabinet at its meeting on 24 November 2009.

Prl 2 – Ratio of Financing Costs to Net Revenue Stream

	2008-09 Actual Outturn	2009-10 Original Estimate	2009-10 Revised Estimate
Financing Costs as a percentage of net revenue budget	4.3%	6.3%	6.1%

The revised estimate for 2009-10 is marginally lower than the original due to a small reduction in the anticipated level of interest payable on long term loans. It is 2% higher than the 2008-09 actual, due to an increase in the minimum revenue provision (MRP) and a decrease in the anticipated level of interest and investment income receivable as a result of the reduction in interest rates.

Prl 3 – Estimate of Incremental Impact of Capital Investment Decisions on the Council Tax

10. This indicator is only relevant at budget setting time and for 2009-10 was calculated as being £3.08.

Prl 4 – Net Borrowing compared to Capital Financing Requirement (CFR)

	2008-09 Actual Outturn £ million	2009-10 Original Estimate £ million	2009-10 Revised Estimate £ million
Capital Financing Requirement	209.8	275.0	235.9
Net Borrowing	98.9	137.2	85.2
Unused Capital Financing Requirement	110.9	137.8	150.7

11. Prl 4 measures the so called “Golden Rule” which ensures that over the medium term net borrowing is only for capital purposes.
12. The main reason for the difference in the 2009-10 revised and original estimates is the revision of the anticipated short term investments likely to be held at the end of 2009-10.

Prl 5a – External Debt

	31/03/09 Actual £ million	30/09/09 Actual £ million	31/03/10 Expected £ million
Borrowing	191.8	190.3	185.2
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	192.0	190.5	185.4

13. Prl 5a shows the gross External Debt outstanding, both long-term loans and temporary borrowing. Long term loans totalling £0.032 million were repaid in first half of 2009-10. The figure for actual borrowing at 31 March 2009 is stated at the amount in the Statement of Accounts, which includes accrued interest.
14. The Operational Boundary and Authorised Limit detailed below are control limits and do not compare with actual borrowing figures as capital funding requirements are not automatically taken as loans, they may be funded from cash balances.

Prl 5b – Operational Boundary for External Debt

Operational Boundary	2009-10 £ million	2010-11 £ million	2011-12 £ million
Borrowing	302.0	299.2	301.5
Other Long Term Liabilities	0.2	0.2	0.2
TOTAL	302.2	299.4	301.7

15. The Operational Boundary is set at a limit that allows the Council to fund its entire financing requirement through loans, if this was the most cost effective approach. The limit was set to anticipate expected expenditure and has not been exceeded during the reporting period (maximum borrowing during the period was £190.3 million on 30 April).

Prl 5c – Authorised Limit for External Debt

Authorised Limit	2009-10 £ million	2010-11 £ million	2011-12 £ million
Borrowing	347.4	344.0	346.8
Other Long Term Liabilities	0.2	0.2	£0.2
TOTAL	347.6	344.2	347.0

16. The External Debt limit includes a margin above the Operational Boundary to allow for any unusual or unpredicted cash movements. The limit has not been exceeded in the period of this report.

Prl 6a – Upper Limit on Fixed Interest Rate Exposures

The Council's upper limit for fixed interest rate exposure for the period 2009-10 to 2011-12 is 100% of net outstanding principal sums.

Prl 6b – Upper Limit on Variable Interest Rate Exposures

The Council's upper limit for variable interest rate exposure is 5% for 2009-10, 12% for 2010-11 and 15% for 2011-12 of net outstanding principal sums.

17. Options for borrowing during the period were considered, however, (mainly) due to the premium incurred on the early repayment of debt and the desire to maintain the Council's relatively low average borrowing rate, no new borrowing has been taken.

Prl 7 – Upper & Lower Limits on the Maturity Structure of Borrowing

Limits on the Maturity Structure of Borrowing	Upper Limit	Lower Limit	Position at 30/09/09
Maturing Period:			
- under 12 months	15%	0%	2.6%
- 12 months and within 24 months	15%	0%	0.0%
- 2 years and within 5 years	45%	0%	0.1%
- 5 years and within 10 years	75%	0%	0.0%
- 10 years and above	90%	0%	97.3%

18. The table above shows that the actual maturity structure is within the agreed limits with the exception of the period for 10 years and above. As reported in the Annual Report on Treasury Management 2008-09 at the 15 July 2009 Cabinet meeting, a change in the treatment of LOBO loans in line with current guidance has led to a breach in the upper limit of the last period. This will be reviewed as part of the Treasury Management Strategy 2010-11 and any changes required will be recommended to Cabinet at its meeting in February 2010.
19. No long term borrowing has been taken during the period. If interest rates are favourable and an opportunity exists to take further borrowing this year we will look to match borrowing with this maturity structure of debt.

Prl 7 - Local Prudential Indicator

20. In addition to the main maturity indicators it was agreed no more than 15% of long term loans should fall due for repayment within any one financial year. The maximum in any one year is 6.3% (£12 million) in 2055-56. A summary maturity profile is shown in Appendix 1.

Prl 8 – Principal Sums invested for periods of longer than 364 days

21. This Prl is now covered by the Annual Investment Strategy for 2009-10, which set a limit of £30 million. During the first six months of 2009-10 no cost effective investments have been identified. The Authority however holds a number of on-call deposit accounts and two money market funds, which offer both an attractive interest rate, some of which track the bank rate, and instant access for flexibility of cash management.

Prl 9 – Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services

22. All actions have been compliant with the CIPFA Code of Practice.

Other Debt Management Issues

Debt Rescheduling

23. No opportunities to reschedule PWLB debt have been identified during the period.

Cash Surpluses and Deficits

Short Term Surpluses and Deficits

24. Any short term cash surpluses or deficits have been managed through temporary deposits or loans, respectively. Temporary deposits outstanding at 30 September 2009 amounted to £110.865 million. This excludes the Icelandic bank deposits.

25. In terms of the position in respect of the £12 million investment caught up in the collapse of the Icelandic banks, Heritable (£9 million) and Landsbanki (£3 million), the Council has so far received £1.5 million from Heritable (16.13p in the £) and nothing yet from Landsbanki.
26. Based on indications from the administrators, Ernst & Young, the Council expects to receive a further repayment in December 2009 of at least 10p in the £ from Heritable Bank.
27. The position with Landsbanki is less clear, however, at the creditors meeting on 23 November 2009 the Council's claim (with some modifications to interest and costs, which are being assessed by solicitors with a view to a challenge) has been accepted as a preferential creditor, but will be subject to challenge from other creditors through the Icelandic courts. Current indications are that the Council should expect to receive a final repayment of between 83p and 90p in the £ (should the preferential creditor status be successfully challenged, the likely level of repayment would decrease to 32p in the £). It is anticipated that distributions are unlikely to begin until the challenge process is completed, which is expected to be no earlier than the summer of 2010.

Longer Term Cash Balances

28. Interest rate movements in the period have not provided any opportunities for an increased return by longer term investment of the more permanent cash surpluses, such as the PFI Sinking Fund. Funds have been invested 'short' during the period, in the light of the continuing uncertainty of the current financial climate.

Investment Strategy

29. All investments have been conducted within the agreed Annual Investment Strategy and made only to authorised lenders within the Council's high credit rating policy.
30. Our Treasury Advisers provide a weekly credit rating document and updates on any changes in ratings between one weekly credit rating document and the next. Ratings are monitored and any changes reflected in a revised lending list and any action considered appropriate is taken. The advisers also provide details of credit default swap spreads, which indicate default risk, if any. These are also taken into account in preparing and updating of the Council's lending list.

Risk Assessment and Financial Implications

31. All investment has been at fixed rates during the period. The Council's current average interest rate on long term debt is 4.286%, which, according to the latest available information, remains one of the lowest rates amongst UK local authorities.

Equalities Impact of the Proposal

32. None have been identified as arising directly from this report

Reasons for Proposals

33. That the Cabinet receive this interim report as a requirement of the Treasury Management Strategy.

Environmental Impact of Proposal

34. There is no direct environmental impact out of the proposals in this report.

Legal Implications

35. None have been identified as arising directly from this report.

Proposal

36. The Cabinet is asked to note the contents of this report in line with the Treasury Management Strategy.

MARTIN DONOVAN
Chief Finance Officer

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The following unpublished documents have been relied on in the preparation of this Report: NONE

SUMMARY OF LONG TERM BORROWING 1 APRIL – 30 SEPTEMBER 2009**Loans Raised During the Period**

Date Raised	Lender	Amount (£m)	Type	Interest rate (%)	Maturity date	No. of years
No Loans Raised						
	Total	0.000				

Average period to maturity (years)**0.00****Average interest rate (%)****0.00**

* Loans taken to restructure debt

** Loans taken for purchases instead of leasing

Maturity Profile at 30 September 2009

Year	Amount (£m)	%age	Average rate (%)
1 to 5 years	5.070	2.7	4.301
6 to 15 years	0.032	0.0	4.429
16 to 25 years	25.623	13.5	4.603
26 to 50 years	143.500	75.4	4.376
Over 50 years	16.000	8.4	4.120
Totals	190.225	100.0	4.286

Average period to maturity (years)**37.98**

**SUMMARY OF TEMPORARY LOANS AND DEPOSITS 1 APRIL –
30 SEPTEMBER 2009**

Type	Balance 1 Apr 09 * £m	Raised		Repaid		Balance 30 Sep 09 £m	Interest Variance ** High/Low(%)
		Value £m	No.	Value £m	No.		
Temporary loans							
- General	0.000	0.000	0	0.000	0	0.000	
Total	0.000	0.000	0	0.000	0	0.000	
Temporary deposits							
- General	61.650	370.500	64	376.650	76	55.500	1.58/0.25
- HSBC Overnight	0.850	260.620	72	261.470	73	0.000	0.15/0.30
- Call Accounts	12.501	83.605	33	55.650	24	40.456	1.20/0.75
- Money Market Funds	11.690	14.909	2	11.690	1	14.909	0.90/0.90
Total	86.691	729.634	171	705.460	174	110.865	

* Balances at 1 April 2009 include those brought forward from the former district councils but exclude Icelandic deposits

** Interest variance is the highest/lowest interest rate for transactions during the period